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 STATE PASS USTR FOR STRATFORD AND ALTBACH, TREASURY FOR
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 AND DAWSON AND FAS/OCRA RADLER, BURNETT, AND BEILLARD

E.O. 12958: DECL: 02/11/2020
 TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [PGOV](#) [PREL](#) [EAGR](#) [TW](#) [CH](#)
 SUBJECT: TAIWAN MAKES PROGRESS TOWARD CROSS-STRAIT TRADE
 PACT

Classified By: Bill Stanton, AIT Director, for reasons 1.4 (b) and (d).

11. (C) SUMMARY: Taiwan officials confirmed that Taiwan and the PRC have formally agreed to pursue a bilateral Economic Cooperation Framework Agreement (ECFA). Following January 26 talks in Beijing, the two sides plan to conclude an ECFA during the fifth round of cross-Straits economic talks, tentatively slated to take place before June. Taiwan hopes the agreement will include enhanced PRC market access for five "early harvest" industrial sectors and several service industries, including banking and finance. The PRC has not yet given Taiwan its own market access priorities, but reportedly understands that domestic Taiwan political sensitivities will put agricultural products off the table for the foreseeable future. PRC officials have provided informal indications that they may not object to Taiwan's pursuit of free trade agreements (FTAs) with other partners. Although it is publicly denying any timetable for signing ECFA, the Ma administration may believe the political window to sign an ECFA will close as the highly partisan December municipal elections approach. END SUMMARY.

 Formal Agreement to Pursue ECFA

12. (C) During a February 11 meeting with econ chief, Ministry of Economic Affairs (MOEA) Bureau of Foreign Trade (BOFT) Director General Franco Huang, who led Taiwan's delegation during January 26 ECFA talks with PRC counterparts in Beijing, provided a readout on the agreement's status. According to Huang, the January 26 meeting was the formal culmination of four previous informal exchanges on ECFA. During the Beijing meeting, the two sides reviewed their respective economic impact assessments and formally agreed to pursue an ECFA. Taiwan deflected a PRC request that Taiwan

open its market to Chinese agricultural exports, and the two sides agreed to shelve the issue pending future discussions. Huang explained that there was also agreement to characterize ECFA as a pact between "both sides of the Taiwan Strait." Taiwan, using the "customs territory" nomenclature under which it joined the WTO, would then inform the WTO that it planned to enter into an ECFA with the PRC. The Straits Exchange Foundation would sign the ECFA on behalf of Taiwan, Huang added.

ECFA on Docket for Spring Talks

13. (C) Huang noted that Taiwan and the PRC would continue informal ECFA negotiations in late February or early March, with the goal of reaching a final agreement in time for the next round of talks between the SEF and the PRC's Association for Relations Across the Taiwan Strait (ARATS), tentatively slated to take place in the PRC sometime before June. The fifth round of SEF-ARATS talks, he explained, should result in signed bilateral agreements on taxation, intellectual property rights protection, and the ECFA itself.

ECFA to Include Priority Commodities...

14. (C) Elaborating on ECFA, Huang confirmed that the agreement would encompass enhanced market access for Taiwan firms in five "early harvest" sectors: petrochemicals, textiles, machine tools, autos and auto parts, and flat panel displays. Taiwan was also requesting lower tariff on other commodities beyond those five sectors, Huang noted. There remained, however, a "big gap" between Taiwan proposals and what the PRC was willing to accept. At the same time, Huang added, the PRC had not yet provided its own priorities for enhanced access to the Taiwan market. Ideally, he said, Taiwan would grant reciprocal access to all PRC products. In practice, however, since Taiwan was the smaller economy, it would receive relatively more favorable treatment.

...and Services

15. (C) In addition to industrial commodities, Huang explained, Taiwan was also using the ECFA to seek improved market access in several service sectors, including computer maintenance, retail distribution, and financial services. Since the existing bilateral financial services MOU did not cover market access, he observed, Taiwan was trying to address that issue through the ECFA. As with the "early harvest" sectors and other industrial commodities, the PRC had not yet given Taiwan its own list of service sector priorities.

PRC Understands Taiwan Political Realities

16. (C) Huang's readout largely echoed that provided by Mainland Affairs Council (MAC) Economic Department Director Lee Li-jane on February 10. Lee noted that during the January 26 Beijing talks, ARATS Vice Chairman Zheng Zhong-li said the ECFA must benefit both sides equally, unlike previous cross-strait economic agreements, which he maintained have disproportionately favored Taiwan. Lee added, however, that the PRC realized Taiwan's domestic political realities prevent President Ma from removing import restrictions on a wide range of mainland agricultural products.

17. (C) Lee noted that the PRC was concerned that Taiwan's Legislative Yuan (LY) might seek to alter the text of ECFA once it was signed. Managing the LY's approval of ECFA will be a difficult political challenge for President Ma, she noted. Lee observed that the Ma administration will have

difficulty reporting to the LY on the status of ECFA negotiations, since the PRC will insist on keeping the details secret until the agreement is signed. She believed this was, in part, why SEF Chairman P.K. Chiang told reporters that cross-Strait relations had entered a more difficult phase, and why President Ma stated publicly that there was no deadline for signing ECFA.

¶18. (C) Providing more detail on services discussions, Lee said ECFA will also contain general statements that both sides will seek to reduce trade barriers in services, and commit both sides to establish rules of origin and dispute settlement mechanisms, protect investment and intellectual property, and harmonize tax regulations.

PRC Willing to Accept Other Taiwan FTAs?

¶19. (C) According to Lee, PRC negotiators have never officially expressed their views on Taiwan's interest in pursuing bilateral free trade agreements (FTAs) with other trading partners. In a number of private meetings, however, PRC officials have suggested that pursuing such FTAs was a matter for Taiwan to decide. The PRC had implied that it would not oppose Taiwan efforts to negotiate FTAs with economies that already have trade agreements with China. Lee said she expected the PRC would make its formal position on FTAs known only after the ECFA was signed.

Political Concerns Push Toward Early Signing

¶10. (C) In a February 10 meeting with poloff, KMT Mainland Research Department Director Chang Jung-kung said it was important to sign the ECFA during the first half of the year, since the issue would become too politicized with the approach of the December municipal elections. In Chang's view, any delay in signing the ECFA would be seen as an example of President Ma's incompetence, and inability to deliver results on his priority issues. Like MAC's Lee, Chang said he believed the PRC understood Ma's domestic political pressures, and was therefore optimistic that an ECFA deal could be struck by June. He noted that Legislative Yuan (LY) Speaker Wang Jin-pyng supported efforts to form an LY committee to oversee cross-Strait affairs, but added that the initiative garnered little support among KMT lawmakers.

Shanghai, Hubei Officials to Visit

¶11. (C) According to Chang, Shanghai Mayor Han Zheng will visit Taiwan on April 6, and Hubei Provincial Party Secretary Luo Qingquan is slated to visit at the end of April. Chang said it was possible that Han could make an announcement concerning direct flights between Taipei's Songshan Airport and Shanghai's Hongqiao Airport, although it was not clear if such flights could begin in time for the opening of the Shanghai World Expo on May 1. Han might also invite Taipei Mayor Hau Long-bin to attend the Expo, as Taipei City will have an exhibit there.

¶12. (C) COMMENT: Since the agreement was first mooted, Taiwan officials have repeatedly expressed very optimistic views about when an ECFA could actually be signed. Although there appears to be significant ongoing progress in bilateral trade talks, our own recent experience with beef highlights the unpredictability of Legislative Yuan (LY) reaction. Ma administration efforts to solidify LY support for the proposed pact will be crucial in allowing ECFA to move forward. END COMMENT.

STANTON